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August 28, 2003

VIA FEDEX

Mr. Mark Spitzer, Chairman
Arizona Corporation Commission
1200 W. Washington Street
Phoenix, AZ 85007

Arizona Corporation Commission
DOCKETED

AUG 29 2003

DOCKETED BY	
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Re: Palo Verde Utilities Company and Santa Cruz Water Company
Docket Nos. SW-03575A-~~98-0327~~ and W-03576A-~~98-0328~~

03-0167

Oregon Public Employees' Retirement Board v. Simat, Helliesen & Eichner, et al
Multnomah County Circuit Court, Oregon Case No. 9610-08259

Dear Chairman Spitzer:

I represent Mr. Michael T. Reinbold in connection with the above-referenced Oregon litigation. I received a copy of a letter from Peter D. Shepherd, Deputy Attorney General of the State of Oregon, dated August 6, 2003, directed to you, as Chairman of the Arizona Corporation Commission ("Commission"). Mr. Shepherd seemingly wishes to influence the Commission's decision by painting Mr. Reinbold in a poor light relative to matters we believe have no impact on the business operations of the two utilities your agency regulates.

Mr. Reinbold pledged certain assets to the Oregon Public Employee's Retirement Board ("OPERB") in October 2000. Mr. Reinbold's interests in two entities, Reinbold Investments, LLC and RHS Properties, Inc., are subject to a pledge agreement in connection with his appeal of the monetary judgment entered against him in Oregon. Despite the limited value of such assets relative to the judgment, the trial judge, Judge William Keyes, accepted Mr. Reinbold's pledge, rather than require a supersedeas bond for the full amount of the judgment, because he desired to facilitate review of his decision by the Oregon Court of Appeals. Until Mr. Shepherd's letter, no representative of OPERB had raised any questions about the pledge agreement and I was unaware of any "investigation" by OPERB to determine whether the assets subject to Mr. Reinbold's pledge are "protected." Mr. Reinbold has

complied with his pledge obligations and any belief to the contrary held by Mr. Shepherd or OPERB is simply erroneous.

Mr. Reinbold described to Judge Keyes at the time of his pledge that Reinbold Investments owned a minority (less than 3/10th of 1%) interest in an entity known as Pecan Valley Investments, LLC, and Reinbold Investments and RHS Properties owned a minority interest in another entity known as El Dorado Pecan, LLC, which entity owned less than 1/2 of 1% of Pecan Valley Investments. At the time of Mr. Reinbold's pledge, Pecan Valley Investments was the sole owner of all of the stock of the utilities; however, the combined interests of Reinbold Investments and RHS Properties in Pecan Valley Investments were equal to less than 1%, a fact known to both Judge Keyes and lawyers representing OPERB before the pledge agreement was signed.

Subsequent to the date of Mr. Reinbold's pledge agreement, Pecan Valley Investments transferred ownership of the utilities to Phoenix Capital Partners, LLC, the "transfer" referred to in Mr. Shepherd's letter. Pecan Valley Investments is currently the majority owner of Phoenix Capital Partners.¹ Mr. Reinbold's actions in the transfer were limited to his acting in his capacity as agent for Pecan Valley Investments through El Dorado Pecan, its managing agent, to effectuate the transfer already approved by the majority of the owners. Mr. Reinbold did not have the ability or right, given his limited ownership interest in Pecan Valley Investments, to transfer, sell or encumber any of its assets.²

The transfer Mr. Shepherd describes in his letter had nothing to do with the judgment against Mr. Reinbold, his pledge agreement or the pending applications before the Commission. Pecan Valley Investments is not subject to Mr. Reinbold's pledge agreement. Mr. Reinbold, RHS Properties and/or Reinbold Investments have never owned a controlling interest in Pecan Valley Investments. OPERB's counsel was told before the pledge agreement that Mr. Reinbold did not control Pecan Valley Investments. Perhaps most importantly, the transfer did not dilute or otherwise limit the level of ownership of Reinbold Investments and RHS Properties in Pecan Valley Investments or El Dorado Pecan, which interests are subject to Mr. Reinbold's pledge.

While Mr. Shepherd is correct that Phoenix Utility Management was formed after Mr. Reinbold's pledge, no assets of Reinbold Investments or RHS Properties were used to acquire an interest in Phoenix Utility Management or any other entities formed since the pledge agreement. Nor has Mr. Reinbold's ownership in the utilities materially changed. In

¹ A chart illustrating the current ownership structure of the utilities is enclosed.

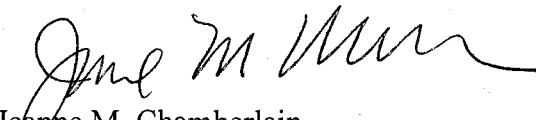
² No party has authority to sell, pledge or otherwise encumber the assets of the utilities absent express approval of the Commission pursuant to A.R.S. § 40-285.

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short, the issues discussed in Mr. Shepherd's letter are of little consequence to the operations of the utilities under regulation by the Commission.

I appreciate this opportunity to respond to Mr. Shepherd's letter. If you have any further questions or need any additional information, please let me know.

Very truly yours,



Jeanne M. Chamberlain

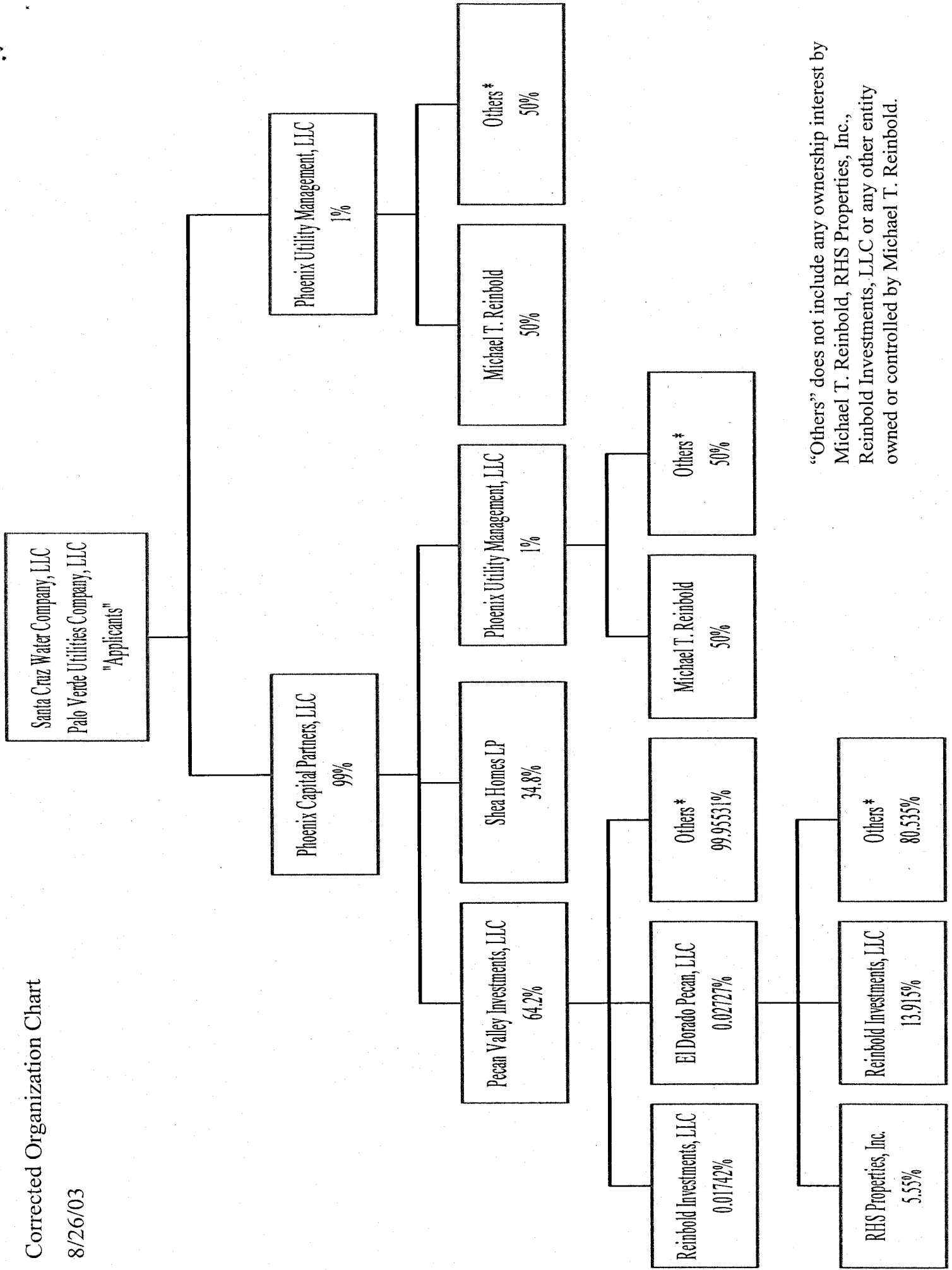
JMC/ldh
Enclosure

cc (w/enc.): Commissioner Jim Irvin (via FedEx)
Commissioner William Mundell (via FedEx)
Commissioner Jeff Hatch-Miller (via FedEx)
Commissioner Mike Gleason (via FedEx)
Hearing Officer Dwight Nodes (via FedEx)
Michael T. Reinbold (via facsimile)
Lisa Kaner, Esq. (via facsimile)
Jay Shapiro, Esq. (via e-mail)

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Corrected Organization Chart

8/26/03



"Others" does not include any ownership interest by Michael T. Reinbold, RHS Properties, Inc., Reinbold Investments, LLC or any other entity owned or controlled by Michael T. Reinbold.